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Toronto, February 26, 1980 -- The following remarks were made today by Charles F. Baird, President of Inco Limited in New York to:

DEAN WITTER REYNOLDS
METALS & MINING FORUM

- more -

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INCO LIMITED
REMARKS TO DEAN WITTER REYNOLDS
METALS & MINING FORUM

FEBRUARY 26, 1980

C. F. BAIRD

I HOPE THAT ALL OF YOU HAVE SEEN THE PRESS RELEASE OF OUR FOURTH QUARTER AND FULL YEAR 1979 EARNINGS. YOU PROBABLY HAVE NOT HAD AN OPPORTUNITY TO REVIEW OUR ANNUAL REPORT, BUT A SUPPLY IS AVAILABLE IN THE FRONT OF THE ROOM. I HOPE YOU WILL READ THE REPORT AT YOUR LEISURE, SO I WILL ONLY HIGHLIGHT ITS CONTENTS TODAY. COPIES OF MY REMARKS HAVE ALSO BEEN MADE AVAILABLE TO YOU.

1979 WAS A TURNAROUND YEAR FOR INCO. NET SALES IN 1979 WERE ALMOST \$2.5 BILLION, AN INCREASE OF \$400 MILLION OVER 1978, REFLECTING IMPROVED PRICES FOR ALL OUR PRINCIPAL PRODUCT GROUPS.

NET EARNINGS OF \$142 MILLION, OR \$1.58 PER COMMON SHARE, IN 1979 WERE AFFECTED BY CERTAIN MAJOR UNUSUAL FACTORS WHICH SHOULD NOT RECUR IN 1980 OR AT LEAST SHOULD NOT RECUR TO THE SAME DEGREE. WE HAD A \$43 MILLION CREDIT RESULTING FROM A TAX CHANGE IN THE UNITED KINGDOM, \$88 MILLION OF CHARGES (CONSISTING PRINCIPALLY OF INTEREST EXPENSE) APPLICABLE TO THE GUATEMALAN AND INDONESIAN PROJECTS, SOME \$38 MILLION OF AFTER-TAX EXPENSE ATTRIBUTABLE TO THE SUDBURY STRIKE, AND A \$13 MILLION LOSS FROM CURRENCY TRANSLATION ADJUSTMENTS. IN 1980 THE SUDBURY STRIKE CHARGES WILL NOT RECUR AND THE PROJECT LOSSES SHOULD BE SUBSTANTIALLY REDUCED. AS I SHALL EXPLAIN IN A MOMENT, SOME CONTINUING BENEFIT FROM THE UNITED KINGDOM TAX CHANGE CAN BE EXPECTED, AND THE DIRECTION OF CURRENCY TRANSLATION ADJUSTMENTS IS ANYBODY'S GUESS.

WHILE EARNINGS OF \$142 MILLION ARE BY NO MEANS SATISFACTORY FOR INCO, GIVEN THE MAGNITUDE OF OUR INVESTMENT IN THE BUSINESS, THERE HAS BEEN AN IMPROVING TREND IN OUR OPERATIONS WHICH BECOMES MORE APPARENT IF WE LOOK AT OUR QUARTERLY EARNINGS. (SLIDE ON)

IN THIS CHART WE HAVE REMOVED THE CREDITS RELATING TO PRIOR YEARS WHICH RESULTED FROM THE TAX CHANGE IN THE UNITED KINGDOM SO THAT WE CAN VIEW THE PERFORMANCE WITHOUT THIS DISTORTION. OF THE \$43 MILLION CREDIT WE RECOGNIZED DURING THE YEAR, \$26 MILLION WAS THE REVERSAL OF DEFERRED TAX LIABILITIES ESTABLISHED IN PRIOR YEARS AND, AS SUCH, SHOULD BE REGARDED AS A NON-RECURRING ITEM. THE REMAINDER OF THE CREDIT, SOME \$17 MILLION, WAS THE TAX RELIEF ASSOCIATED WITH THE INCREASE IN OUR U.K. INVENTORIES IN 1979. THE U.K. TAX RELIEF IS BASED ON THE MONETARY VALUE OF THE INVENTORIES, NOT THE QUANTITY. IN PERIODS OF INFLATION, THEREFORE, WE WOULD EXPECT SOME TAX RELIEF EACH YEAR.

QUARTERLY NET EARNINGS DECLINED THROUGH 1978 AND INTO THE EARLY PART OF 1979, REFLECTING DETERIORATION IN NICKEL PRICES AND \$137 MILLION OF COSTS AND EXPENSES ATTRIBUTABLE TO THE SUDBURY STRIKE WHICH BEGAN IN SEPTEMBER 1978 AND WAS SETTLED IN JUNE 1979.

INCO IS A MULTI-PRODUCT COMPANY, BUT THE MOST IMPORTANT COMPONENTS OF OUR FINANCIAL RESULTS ARE STILL NICKEL PRICES AND VOLUMES.

NICKEL PRICES IMPROVED CONSIDERABLY IN 1979. OUR AVERAGE REALIZATIONS TODAY ARE MORE THAN A DOLLAR A POUND HIGHER THAN ONE YEAR AGO. THIS RECOVERY IN PRICES, COUPLED WITH HIGHER COPPER PRICES AND A SURGE IN PRECIOUS METALS PRICES, PROVIDED THE BASIC STRENGTH UNDERLYING THE RESULTS FOR THE FOURTH QUARTER-- THE FIRST TIME IN A LONG WHILE THAT EARNINGS APPROACHED AN ACCEPTABLE LEVEL. THESE FAVORABLE TRENDS CONTINUE.

IN KEEPING WITH THE THEME OF THIS MEETING, "INVESTMENT STRATEGY FOR METAL STOCKS IN 1980s," YOU WILL MOST CERTAINLY BE INTERESTED IN THE CURRENT AND FUTURE CONDITIONS IN THE NICKEL INDUSTRY. LET ME PROVIDE INCO'S ASSESSMENTS.

(SLIDE ON) ESTIMATED NON-COMMUNIST WORLD NICKEL CONSUMPTION FROM 1946 THROUGH 1979 GREW AT AN AVERAGE ANNUAL RATE OF 5.6 PER CENT. THE GROWTH RATE BETWEEN 1974 AND 1979 WAS A DISAPPOINTING 2.3 PER CENT, HOWEVER. AFTER A RECORD-BREAKING 1.37 BILLION POUND DEMAND IN 1974 (THAT IS, CONSUMPTION PLUS OR MINUS CHANGES IN CUSTOMER INVENTORIES PLUS DELIVERIES TO THE SINO-SOVIET BLOC), THERE FOLLOWED A 400 MILLION POUND DROP IN 1975, RECOVERY IN 1976, THE UNEXPECTED DROP IN 1977, AND A SUBSEQUENT QUITE REMARKABLE RECOVERY SINCE THEN. UNLIKE DEMAND, NON-COMMUNIST WORLD NICKEL CONSUMPTION IN 1979 OF OVER 1.3 BILLION, WAS A NEW RECORD.

TOTAL NICKEL SUPPLY (NON-COMMUNIST WORLD PRODUCTION PLUS IMPORTS FROM THE SOVIET UNION AND CUBA) EXCEEDED DEMAND IN 1975, 1976 AND 1977. MAJOR PRODUCTION CUTBACKS, PLUS LABOR INTERRUPTIONS, RESULTED IN NEW SUPPLY BEING SUBSTANTIALLY BELOW DEMAND IN EACH OF THE LAST TWO YEARS.

(SLIDE) THE DIFFERENCE BETWEEN NICKEL DEMAND AND SUPPLY IS REFLECTED IN PRODUCER INVENTORIES, WHICH ROSE FROM LESS THAN 200 MILLION POUNDS IN 1974 (WHEN NICKEL WAS BEING ALLOCATED TO CUSTOMERS) TO OVER 750 MILLION POUNDS AT YEAR-END 1977. AT YEAR-END 1979 WE ESTIMATE THESE INVENTORIES AT APPROXIMATELY 300 MILLION POUNDS, TOWARDS THE LOWER END OF THE RANGE WHICH IS CONSIDERED "NORMAL" BY INDUSTRY ANALYSTS. THE IMPROVING FINANCIAL HEALTH OF THE INDUSTRY REFLECTS THIS SIGNIFICANT TURNAROUND IN THE LEVEL OF INVENTORIES. (SLIDE OFF)

(SLIDE ON) WE CURRENTLY ESTIMATE 1980 PRODUCTION AT ABOUT 1.2 BILLION POUNDS OR ABOUT 80 PER CENT OF CURRENT CAPACITY. TOTAL NEW SUPPLY DURING THIS YEAR MIGHT BE 1.28 BILLION POUNDS INCLUDING 70 MILLION POUNDS FROM THE USSR AND CUBA.

ASSUMING A DOWNTURN IN ECONOMIC ACTIVITY WE EXPECT NICKEL CONSUMPTION AND DEMAND IN 1980 TO BE 1.2 BILLION POUNDS, OR SOME 10 PER CENT LOWER THAN IN 1979. THIS WOULD RESULT IN PRODUCER INVENTORIES AT YEAR-END 1980 BEING 380-390 MILLION POUNDS, WELL WITHIN THE RANGE CONSIDERED NORMAL. (SLIDE OFF).

(SLIDE ON) LOOKING AHEAD TO 1985 WE DO NOT EXPECT THE DYNAMIC GROWTH IN NICKEL DEMAND EXPERIENCED FROM 1946 TO 1979 TO CONTINUE. IN OUR PLANNING WE ASSUME A 4 PER CENT GROWTH RATE RESULTING IN A 1985 CONSUMPTION OF AROUND 1.6 TO 1.7 BILLION POUNDS. CURRENT WESTERN WORLD CAPACITY OF 1.6 BILLION POUNDS (INCLUDING DESIGN CAPACITY OF OUR PROJECTS IN INDONESIA AND GUATEMALA TOGETHER WITH IMPORTS FROM RUSSIA AND CUBA) WOULD APPEAR SUFFICIENT TO ACCOMMODATE THIS LEVEL OF CONSUMPTION. (SLIDE OFF).

IN ADDITION TO CURRENT CAPACITY THERE ARE A NUMBER OF PROJECTS WHICH HAVE BEEN REPORTED AS PLANNED FOR COMPLETION DURING THE NEXT FIVE YEARS WHICH COULD, AND I STRESS THE WORD "COULD", ADD A FURTHER 300 MILLION POUNDS OF CAPACITY BY 1985. VIRTUALLY ALL OF THIS ADDITION IS BASED ON LATERITE ORES AND COMES IN THE FORM OF GOVERNMENT-OWNED AND GOVERNMENT-SUPPORTED PROJECTS. IF PAST EXPERIENCE IS A GUIDE, PERHAPS 50 PER CENT OF THIS REPORTED ADDITIONAL CAPACITY MIGHT BE ON STREAM BY 1985.

THE LOW RETURNS ON NICKEL INVESTMENTS OVER THE PAST FEW YEARS HAVE DONE LITTLE TO ENCOURAGE THE PRIVATE SECTOR TO MAKE INVESTMENTS IN NEW CAPACITY. THE ENORMOUSLY HIGH CAPITAL COST REQUIREMENTS TO DEVELOP NEW NICKEL PROJECTS, ALMOST CERTAINLY BASED ON LATERITE ORES IN REMOTE LOCATIONS, REPRESENT A MOST FORMIDABLE BARRIER TO ANY SUCH DEVELOPMENTS AT TODAY'S PRICES. OUR INVESTMENT IN INDONESIA AND GUATEMALA, WHICH IS OVER \$1.1 BILLION,

LION COMBINED, IS CONSIDERABLY MORE THAN THE INVESTMENT COST CONTEMPLATED WHEN THOSE PROJECTS WERE INITIALLY UNDERTAKEN. HOWEVER, CONSIDERING THE COST OF NEW PROJECTS, PARTICULARLY IN TODAY'S INFLATIONARY ENVIRONMENT, WE ARE VERY GLAD THAT THE CONSTRUCTION OF OUR PROJECTS IS BEHIND US.

GIVEN THE SIGNIFICANT CAPITAL COSTS OF NEW PROJECTS, PRODUCERS WITH UNUTILIZED CAPACITY, OF WHICH INCO IS BY FAR THE LARGEST, ARE CLEARLY IN AN ADVANTAGEOUS POSITION OVER THE MEDIUM TERM.

LET'S NOT DWELL TOO LONG IN ANTICIPATING CONDITIONS BEYOND 1984. WE DO HAVE SPECIFIC GOALS FOR EXPANDING OUR METALS AND OTHER BUSINESSES IN THE MEDIUM TERM.

INCO METALS COMPANY, THE PRIMARY METALS SEGMENT OF OUR BUSINESS, WILL CONTINUE TO BE A MAJOR FACTOR IN THE OVERALL PERFORMANCE OF OUR COMPANY. AT EACH PRODUCING LOCATION WE ARE IMPROVING PRODUCTIVITY, INCREASING ENERGY EFFICIENCY AND DEVELOPING PROCESSING IMPROVEMENTS, SO THAT WE WILL REMAIN A LOW-COST PRODUCER. MANY OF OUR PROCESS IMPROVEMENTS ARE DESIGNED TO INCREASE THE RECOVERY OF OTHER METALS FROM THE NICKEL-BEARING ORE, AND WE CONTINUE TO ADDRESS PROBLEMS ARISING FROM ENVIRONMENTAL CONSTRAINTS. THE IMPORTANCE OF OUR OTHER METALS, LET'S CALL THEM BY-PRODUCTS, HAS BEEN HEIGHTENED BY THE DRAMATIC PRICE INCREASES WHICH HAVE OCCURRED RECENTLY.

ABOUT 98 PER CENT OF OUR COPPER PRODUCTION, 90 PER CENT OF OUR PRECIOUS METALS AND 80 PER CENT OF OUR COBALT COMES FROM THE SUDBURY DISTRICT ORES.

ON AN ANNUALIZED BASIS, OUR CURRENT RATE OF NICKEL PRODUCTION WOULD GENERATE ABOUT 400,000 TROY OUNCES OF PLATINUM GROUP METALS AND GOLD. TYPICALLY 35% OF THE PRECIOUS METALS RECOVERED IS PLATINUM, 45% IS PALLADIUM AND 11% IS GOLD. ON THE SAME BASIS WE WOULD PRODUCE ABOUT 1.35 MILLION TROY OUNCES OF SILVER AND ABOUT 3.7 MILLION POUNDS OF COBALT. WE MINE ABOUT THE SAME QUANTITY OF COPPER AS NICKEL FROM THE SUDBURY DISTRICT ORES.

THE QUANTITIES OF BY-PRODUCTS, EXCEPTING COPPER, ARE SMALL RELATIVE TO NICKEL PRODUCED, BUT WHEN CURRENT MARKET PRICES ARE APPLIED, EVEN THESE RELATIVELY SMALL QUANTITIES PROVIDE SIGNIFICANT REVENUES TO THE COMPANY. THE BRIEFEST GLANCE AT THE NEXT CHART WILL SHOW YOU HOW COPPER AND THESE OTHER METALS HAVE GROWN IN IMPORTANCE TO INCO SINCE 1975. (SLIDE ON).

PRODUCTION AND SALES VOLUMES DECLINED SHARPLY IN 1978 AND 1979 AS A RESULT OF THE SUDBURY STRIKE. DESPITE THIS DECLINE IN VOLUMES, THE GROSS PROFIT CONTRIBUTION INCREASED SIGNIFICANTLY, REFLECTING HIGHER PRICES.

(SLIDE) LOOKING TO 1980, BASED ON THE QUANTITIES OF BY-PRODUCTS WE WOULD EXPECT TO DELIVER FOR THE FULL YEAR, IF WE WERE TO ASSUME THE FULL YEAR'S PRICES ARE THE SAME AS PRICES REALIZED IN JANUARY, (A HEROIC ASSUMPTION), SALES OF THESE PRODUCTS WOULD RISE TO AROUND \$500 MILLION. (SLIDE OFF)

LET'S CONSIDER ANOTHER MAJOR FACTOR IN METALS PRODUCTION--- ENERGY COSTS. THESE COSTS, PARTICULARLY FOR OIL, HAVE ESCALATED DRAMATICALLY OVER THE PAST YEAR, AND WE SEE NO MODERATING TREND. LET ME REVIEW WHAT ENERGY COSTS WOULD BE FOR EACH OF OUR MAJOR PRODUCING LOCATIONS IF THEY HAD BEEN OPERATING AT FULL PRODUCTION FOR AN ENTIRE YEAR AND WITH CURRENT PRICES IN EFFECT.

AT OUR PROJECT IN GUATEMALA, WHICH REPRESENTS ONLY 5 PER CENT OF INCO'S PRIMARY NICKEL PRODUCTION CAPACITY, ENERGY COSTS REPRESENT ABOUT 80 PER CENT OF TOTAL CASH OPERATING COSTS. THE PROJECT, WHICH IS TYPICAL OF LATERITE ORE PRODUCTION, IS COMPLETELY DEPENDENT ON OIL. EVERY TIME THE PRICE OF A BARREL OF OIL RISES \$1, CASH OPERATING COSTS OF PRODUCING ONE POUND OF NICKEL RISE ABOUT 5 CENTS.

IF OUR INDONESIAN OPERATION WERE OPERATING AT FULL PRODUCTION, OIL WOULD REPRESENT OVER 40% OF CASH OPERATING COSTS. THIS SUBSTANTIAL OIL COST IS LESS THAN IT MIGHT BE, SINCE OUR OWN HYDROELECTRIC FACILITY, WHICH REPRESENTED 20% OF THE PROJECT'S CAPITAL COST, PROVIDES ALL OF THE ELECTRICAL ENERGY AND ABOUT HALF THE TOTAL ENERGY REQUIREMENTS OF THE PROJECT. AT THE PROJECT, EVERY TIME THE PRICE OF A BARREL OF OIL RISES BY \$1, CASH OPERATING COSTS OF PRODUCING ONE POUND OF NICKEL RISE ABOUT 2.5 CENTS.

IN FUTURE MOST NEW NICKEL PROJECTS UNDER CONSIDERATION WILL INVOLVE MINING OF LATERITE ORES IN AREAS EQUALLY REMOTE

AS THE GUATEMALAN AND INDONESIAN PROJECTS AND WON'T NECESSARILY ENJOY THE BENEFITS OF HYDROELECTRIC POWER.

IF WE LOOK AT A FULL YEAR'S PRODUCTION LEVEL OF APPROXIMATELY 350 MILLION POUNDS OF NICKEL FROM OUR ONTARIO AND MANITOBA OPERATIONS, THE COST OF ENERGY IN ALL FORMS AT CURRENT PRICES WOULD REPRESENT ABOUT 12% OF TOTAL CASH OPERATING COSTS. THESE COSTS ARE LIKELY TO RISE AS CANADIAN ENERGY PRICES MOVE CLOSER TO WORLD PRICES. HOWEVER, WE GENERATE ABOUT 17% OF OUR ELECTRICITY REQUIREMENTS IN THE SUDBURY AREA FROM HYDROELECTRIC PLANTS, WHICH, OF COURSE, REPRESENTS A SIGNIFICANT COST ADVANTAGE FOR THESE OPERATIONS.

THIS COMBINATION OF CIRCUMSTANCES--THE RELATIVELY LOW DEPENDENCE ON OIL AT OUR CANADIAN OPERATIONS, THE ECONOMIC ADVANTAGE OF A HYDROELECTRIC GENERATING FACILITY AT OUR INDONESIAN PROJECT, AND THE CONTINUED IMPORTANCE OF OUR CANADIAN OPERATIONS AS OUR MAJOR SOURCE OF PRODUCTION--WILL HELP US TO REMAIN A LOW-COST PRODUCER OF NICKEL DESPITE ESCALATING ENERGY PRICES.

LET US TURN NOW TO ENVIRONMENTAL CONTROL, A CONCERN OF THE ENTIRE MINING INDUSTRY.

INCO METAL'S SMELTERS AT SUDBURY AND AT THOMPSON ARE OPERATING UNDER PROVINCIAL CONTROL ORDERS WHICH LIMIT THE AMOUNT OF SULPHUR DIOXIDE THEY MAY EMIT. WE ARE CURRENTLY OPERATING WELL WITHIN THE LIMITS AT BOTH LOCATIONS BUT WE EXPECT THEM TO BE MADE MORE STRINGENT WHEN THE PRESENT ORDERS EXPIRE.

FOR THIRTY YEARS, INCO HAS WORKED HARD AT DECREASING EMISSIONS FROM THE SUDBURY SMELTER WITH CONSIDERABLE SUCCESS. IT IS A SPECIFIC CORPORATE OBJECTIVE TO REDUCE THEM STILL FURTHER. WE ARE PRESENTLY FOCUSING OUR RESEARCH EFFORTS ON TESTS OF TWO POTENTIALLY USEFUL NEW TECHNOLOGIES.

THE FIRST INVOLVES A NEW PROCESS FOR REMOVING SULPHUR FROM THE SMELTER FEED BY PHYSICALLY SEPARATING ADDITIONAL PYRRHOTITE, A SULPHUR-BEARING WASTE MATERIAL, FROM THE NICKEL CONCENTRATE. IT IS NOW BEING TESTED ON A PILOT SCALE IN SUDBURY AND THE RESULTS ARE ENCOURAGING.

THE SECOND INVOLVES A NOVEL PROCESS FOR SMELTING NICKEL CONCENTRATES WHICH HAS THE POTENTIAL FOR PRODUCING A CONTINUOUS STREAM OF SULPHUR DIOXIDE GAS SUITABLE FOR CONVERSION TO SULPHURIC ACID, THEREBY PERMITTING A REDUCTION OF EMISSIONS OF THIS GAS TO THE ATMOSPHERE. THIS TECHNOLOGY ALSO HAS IMPORTANT POTENTIAL FOR IMPROVING WORKPLACE CONDITIONS AND FOR INCREASING METALS RECOVERY.

THE NEW SMELTING PROCESS IS NOW BEING TESTED IN THE COMPANY'S RESEARCH STATIONS AT PORT COLBORNE, ONTARIO. A \$9 MILLION MODIFICATION TO THE THOMPSON, MANITOBA SMELTER IS PROCEEDING CONCURRENTLY TO PERMIT EVALUATION ON A COMMERCIAL SCALE. THE FULL-SCALE PROGRAM WILL BE CARRIED OUT AT THOMPSON BECAUSE THE AVAILABILITY OF SPARE ELECTRIC FURNACE SMELTING CAPACITY WILL

PERMIT CONDUCTING THE TEST MUCH SOONER THAN IF A SIMILAR TEST UNIT WERE BUILT AT SUDBURY. WE HOPE TO COMPLETE THE TEST AND A TECHNICAL AND ECONOMIC FEASIBILITY STUDY OF THE NEW PROCESS BY THE END OF 1981.

IMPLEMENTATION OF THE NEW PROCESSES, IF THEY PROVE SUCCESSFUL, WOULD REQUIRE SUBSTANTIAL CAPITAL EXPENDITURES AND, IN THE CASE OF THE SMELTING PROCESS, A SOLUTION TO THE PROBLEM OF DISPOSING OF LARGE QUANTITIES OF SULPHURIC ACID, A PROBLEM THAT MAY EVENTUALLY REQUIRE GOVERNMENT INVOLVEMENT.

EXPLORATION HAS ALWAYS BEEN AN IMPORTANT PART OF OUR BUSINESS.

LAST APRIL WE ANNOUNCED A POTENTIALLY SIGNIFICANT URANIUM DISCOVERY ON A 100-SQUARE-MILE AREA IN WESTERN CANADA JOINTLY OWNED BY INCO AND CANADIAN OCCIDENTAL PETROLEUM. (SLIDE ON) THE GROUND, ON THE EASTERN EDGE OF THE ATHABASCA FORMATION, IS JUST WEST OF WALLASTON LAKE IN NORTHERN SASKATCHEWAN. A STEPPED-UP DRILLING PROGRAM STARTED IN JANUARY AND IS EXPECTED TO CONTINUE THROUGHOUT THE YEAR. (SLIDE OFF)

EXPLORATION HAS BEEN COMPLETED AND FEASIBILITY STUDIES ARE UNDERWAY ON A SMALL TUNGSTEN DEPOSIT IN MEXICO AND ON A SMALL CHROMITE DEPOSIT AT INCO'S EXISTING TIEBAGHI PROPERTY IN

NEW CALEDONIA.

ADDITIONALLY, IN WESTERN CANADA WE HAVE A MODEST OIL AND GAS EXPLORATION AND DEVELOPMENT PROGRAM WHICH WE EXPECT TO EXPAND THIS YEAR.

INCO IS COMMITTED TO REMAINING A MAJOR AND COMPETITIVE FORCE IN PRIMARY METALS. OUR OTHER LINES OF BUSINESS WILL ALSO BE EMPHASIZED.

(SLIDE ON) SALES INCREASED IN EACH OF OUR BUSINESSES DURING 1979. OPERATING EARNINGS INCREASED IN INCO METALS AND THE FORMED METAL PRODUCTS GROUP, BUT INCO ELECTROENERGY'S OPERATING EARNINGS REMAINED LEVEL. (SLIDE OFF)

WE ARE NOT YET SATISFIED WITH THE PERFORMANCE OF THE NON-PRIMARY METALS SEGMENTS OF OUR BUSINESS AND ARE SEEKING IMPROVED PERFORMANCES AND GROWTH AMONG THESE GROUPS, SO THAT WITHIN FOUR OR FIVE YEARS THEIR CONTRIBUTION WILL REPRESENT APPROXIMATELY 25% TO 30% OF TOTAL OPERATING EARNINGS IN YEARS WHEN PRIMARY METALS' EARNINGS ARE AT SATISFACTORY LEVELS. EARNINGS IMPROVEMENT FROM THESE OTHER SEGMENTS SHOULD BE ACHIEVED BY IMPLEMENTATION OF COST REDUCTION AND MORE EFFECTIVE MARKETING PROGRAMS, THROUGH VARYING PRODUCT MIX, NEW PRODUCT DEVELOPMENT, STRENGTHENED TECHNOLOGY, COMMERCIALIZATION OF INTERNALLY DEVELOPED BUSINESS AND DIVESTITURE, WHERE NECESSARY. INCO ELECTROENERGY'S DIVESTITURE PROGRAM SINCE 1976 HAS GENERATED ALMOST \$23 MILLION WHILE REDUCING ANNUAL PRE-TAX EARNINGS BY LESS THAN \$1 MILLION.

SALES BY THE FORMED METAL PRODUCTS GROUP IN 1979 INCREASED TO \$553 MILLION, NEARLY 29% OVER THE 1978 LEVEL; OPERATING EARNINGS DOUBLED, AND THE ORDER BACKLOG BY THE END OF 1979 HAD NEARLY DOUBLED TO \$568 MILLION. LOOKING AHEAD, WE EXPECT FMPG TO BE AFFECTED ONLY MODERATELY BY ANY RECESSION IN 1980--WE SAY ONLY MODERATELY, FIRST BECAUSE THEIR PRODUCTS FLOW PRIMARILY INTO MARKETS WHICH ARE RESPONSIVE TO CAPITAL SPENDING WHICH SHOULD CONTINUE AT REASONABLE LEVELS, AND BECAUSE ALMOST 30% OF FMPG'S PRODUCT SALES ARE TO THE AEROSPACE INDUSTRY, A BUSINESS THAT IS BOOMING AND IS EXPECTED TO REMAIN STRONG WELL INTO THE 1980'S.

WE RECOGNIZE THAT THE TRADITIONAL MARKETS SERVED BY FMPG'S TWO ROLLING MILLS WILL NOT GROW AT RAPID RATES. THERE ARE, HOWEVER, SOME NEW FACTORS THAT ARE SHIFTING THE DEMAND FOR THEIR PRODUCTION TO HIGHER-PRICED, THOUGH HARDER TO MAKE ALLOYS.

THE RAPID RISE IN OIL PRICES HAS ACCELERATED THE SEARCH FOR OIL AND THE DEVELOPMENT OF ALTERNATIVE SOURCES OF ENERGY, EACH OF WHICH WILL REQUIRE CORROSION-AND HEAT-RESISTANT NICKEL ALLOYS. WE ARE CAPITALIZING ON OUR TECHNOLOGICAL EXPERTISE TO SERVE AND TO GROW WITH THIS TREND TO HIGHER PERFORMANCE AND HIGHER QUALITY.

FMPG AND EACH OF OUR OTHER OPERATING GROUPS ARE CONSCIOUS OF THE SHARPLY HIGHER COSTS OF CARRYING IN-PROCESS INVENTORIES.

TO CONTROL THESE COSTS INVESTMENTS HAVE BEEN MADE IN EQUIPMENT AND COMPUTERIZED PROCESSING SYSTEMS WHICH REDUCE METAL WASTE, SPEED PROCESSING TIME AND CONTROL INVENTORIES.

(SLIDE ON) INCO ELECTROENERGY CORPORATION, FORMERLY ESB RAY-O-VAC, IS NOT IN THE METALS BUSINESS, BUT NONETHELESS DESERVES SOME BRIEF COMMENT AS AN IMPORTANT PART OF OUR COMPANY. THE REORGANIZATION OF THIS SUBSIDIARY IN 1979 WAS FOLLOWED EARLY IN 1980 BY THE CHANGE IN ITS NAME TO INCO ELECTROENERGY CORPORATION. THIS NEW IDENTITY ESTABLISHED A DIRECT RELATIONSHIP WITH THE PARENT COMPANY AND CLEARLY DEFINES THE ELECTRICAL ENERGY FIELD AS ITS PRIMARY BUSINESS. UNDER ELECTROENERGY FOUR CORE COMPANIES WERE ESTABLISHED, EACH WITH WORLDWIDE RESPONSIBILITIES, EACH RETAINING ITS NAME TO MAINTAIN THE HIGH VISIBILITY OF BRAND NAMES, AND EACH WITH ITS OWN TECHNOLOGY STAFF WHICH CAN CONCENTRATE PRIMARILY ON PRODUCT DESIGN AND DEVELOPMENT.

THE FOUR CORE COMPANIES ARE: EXIDE CORPORATION, WHICH MANUFACTURES INDUSTRIAL, AUTOMOTIVE, AND SPECIALTY STORAGE BATTERIES; EXIDE ELECTRONICS CORPORATION, WHICH MANUFACTURES UNINTERRUPTIBLE POWER SUPPLY SYSTEMS AND EMERGENCY LIGHTING PRODUCTS; RAY-O-VAC CORPORATION WHICH PRODUCES DRY CELL AND BUTTON CELL BATTERIES AND PORTABLE LIGHTING DEVICES; AND UNIVERSAL ELECTRIC COMPANY, WHICH MAKES FRACTIONAL HORSEPOWER MOTORS. WE HOPE YOU WILL ACCEPT OUR GIFT OF RAY-O-VAC DISPOSABLE FLASHLIGHTS AS YOU LEAVE TODAY.

TWO STRATEGIC THEMES--SEGMENTATION AND FOCUS--HAVE BEEN IDENTIFIED FOR ALL FOUR ELECTROENERGY COMPANIES. AS A RESULT OF IMPLEMENTING THE REQUIRED ACTIONS IDENTIFIED BY THIS APPROACH, WE EXPECT TO IMPROVE INCO ELECTROENERGY'S FUTURE FINANCIAL RETURNS. (SLIDE OFF)

INCO'S CONSOLIDATED SALES AND EARNINGS ALSO INCLUDE A NUMBER OF SMALL, POTENTIALLY SIGNIFICANT BUSINESSES, WHICH AT THIS STAGE DO NOT LOGICALLY FALL INTO ANY ONE OF OUR THREE MAJOR UNITS. THESE INCLUDE:

INCO SAFETY PRODUCTS COMPANY, THE LARGEST, WITH REVENUES OF \$35 MILLION IN 1979, WHICH MARKETS A WIDE RANGE OF PRODUCTS INTO A RAPIDLY GROWING MARKET. WE EXPECT, BY INTERNAL DEVELOPMENT AND BY ACQUISITION, TO EXPAND IT SUBSTANTIALLY OVER THE NEXT FIVE YEARS.

THE INTERNATIONAL METALS RECLAMATION COMPANY INC., KNOWN AS INMETCO, WHICH USES PROPRIETARY TECHNOLOGY TO PROCESS STAINLESS STEEL WASTE TO NICKEL-CHROMIUM PIG FOR REMELTING. INMETCO ESTABLISHES WITHIN THE U.S. A NEW SOURCE OF NICKEL AND CHROMIUM AND HAS THE POTENTIAL FOR EXPANDING INTO OTHER AREAS OF METAL RECLAMATION AND

MPD TECHNOLOGY, A GROUP OF SMALL INTERNALLY DEVELOPED VENTURES WHICH MARKET A WIDE VARIETY OF PRODUCTS AND SYSTEMS BASED ON INCO TECHNOLOGY. EACH HAS THE

POTENTIAL OF DEVELOPING INTO A MAJOR BUSINESS.

INCO'S VENTURE CAPITAL PORTFOLIO HAS BEEN AN UNQUALIFIED SUCCESS. STARTING IN 1976, WHEN FEW INVESTORS WERE VENTURING FORTH, INCO NOW HAS INTERESTS IN EIGHTEEN SMALL, BUT POTENTIALLY FAST-GROWING COMPANIES IN CANADA, THE U.S. AND EUROPE. THESE INVESTMENTS, WHICH HAD A BOOK VALUE OF \$9 MILLION AT YEAR-END SIGNIFICANTLY INCREASED IN VALUE DURING 1979.

YOU HAVE PROBABLY HEARD ABOUT BIOGEN N.V., A EUROPEAN-BASED BIOTECHNOLOGY COMPANY INVOLVED IN RECOMBINANT DNA RESEARCH. INCO WAS THE LEAD INVESTOR WHEN BIOGEN WAS FORMED IN 1978 AND IS THE LARGEST SHAREHOLDER WITH A 24% OWNERSHIP INTEREST. BIOGEN HAS ACHIEVED LABORATORY PRODUCTION OF HUMAN INTERFERON THROUGH GENE SPLICING TECHNOLOGY. INTERFERON IS A COMPLEX PROTEIN WHICH IS PRODUCED WHEN CELLS ARE ATTACKED BY A VIRUS AND WHICH IN TURN PROTECTS OTHER CELLS AGAINST THE VIRUS. LABORATORY-PRODUCED INTERFERON MAY BE IMPORTANT IN THE TREATMENT OF A WIDE RANGE OF VIRAL INFECTIONS AND POSSIBLY SOME FORMS OF CANCER. WHILE ANOTHER SHAREHOLDER IN BIOGEN HOLDS COMMERCIALIZATION RIGHTS RELATIVE TO INTERFERON, INCO, AS A SHAREHOLDER, WILL BENEFIT FROM ROYALTY INCOME EARNED BY BIOGEN. IN ADDITION, INCO HOLDS RIGHTS TO FUND THE DEVELOPMENT OF CERTAIN FUTURE PROJECTS UNDERTAKEN BY BIOGEN, AND TO RECEIVE COMMERCIALIZATION RIGHTS COVERING SUCH

PROJECTS.

TO SUMMARIZE, WE SEE THE DECADE OF THE EIGHTIES, AS A PERIOD OF SUBSTANTIAL GROWTH FOR INCO: A GROWTH THAT WILL REFLECT INCREASED UTILIZATION OF EXISTING PRODUCTION CAPACITY, A MORE DIVERSIFIED RANGE OF PRODUCTS, AND AN EARLY RETURN TO SATISFACTORY LEVELS OF PROFITABILITY.

IN ASSESSING 1980 WE ARE ENCOURAGED BY THE FACT OUR PRIMARY METALS BUSINESS IS OFF TO AN ESPECIALLY GOOD START. NEVERTHELESS, FORECASTS OF RECESSION, POLITICAL INSTABILITY IN MANY AREAS, AND CONTINUING HIGH INFLATION ARE REASONS FOR CAUTION.

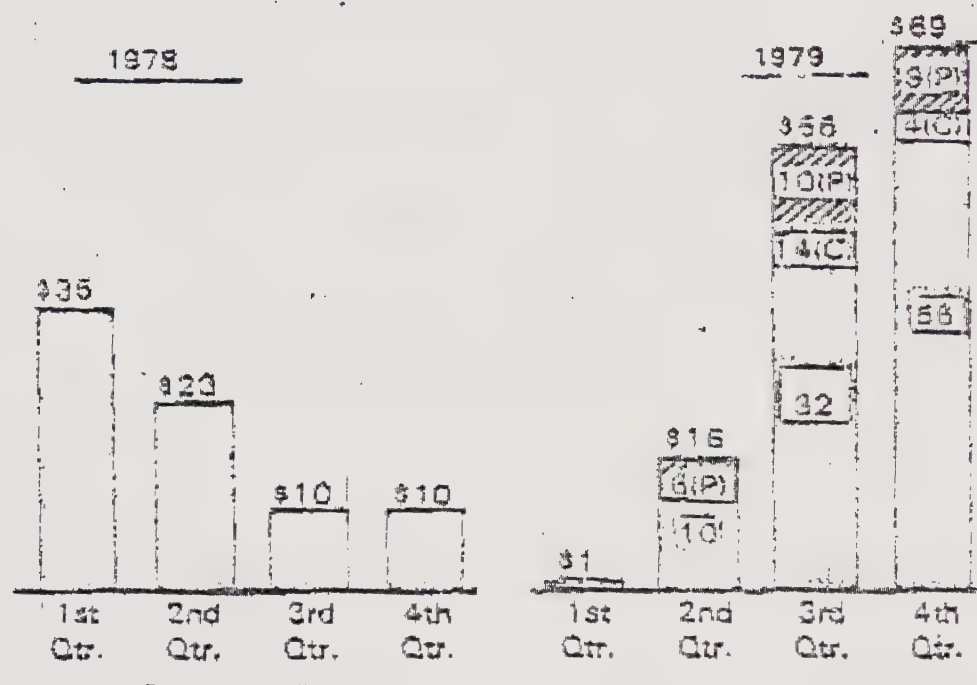
WE BELIEVE THAT THE RECENT LEAN YEARS HAVE LEFT THE NICKEL INDUSTRY WITH A FINANCIAL AND OPERATING DISCIPLINE WHICH MAKES IT PARTICULARLY ABLE TO SUPPLY A MARKET THAT COULD REFLECT A RESURGENCE OF CAPITAL SPENDING.

I NOW WELCOME YOUR QUESTIONS. A FEW OF MY COLLEAGUES ARE SEATED AMONG YOU AND WILL ASSIST ME WHEN NECESSARY.

INCO
LIMITED

QUARTERLY NET EARNINGS

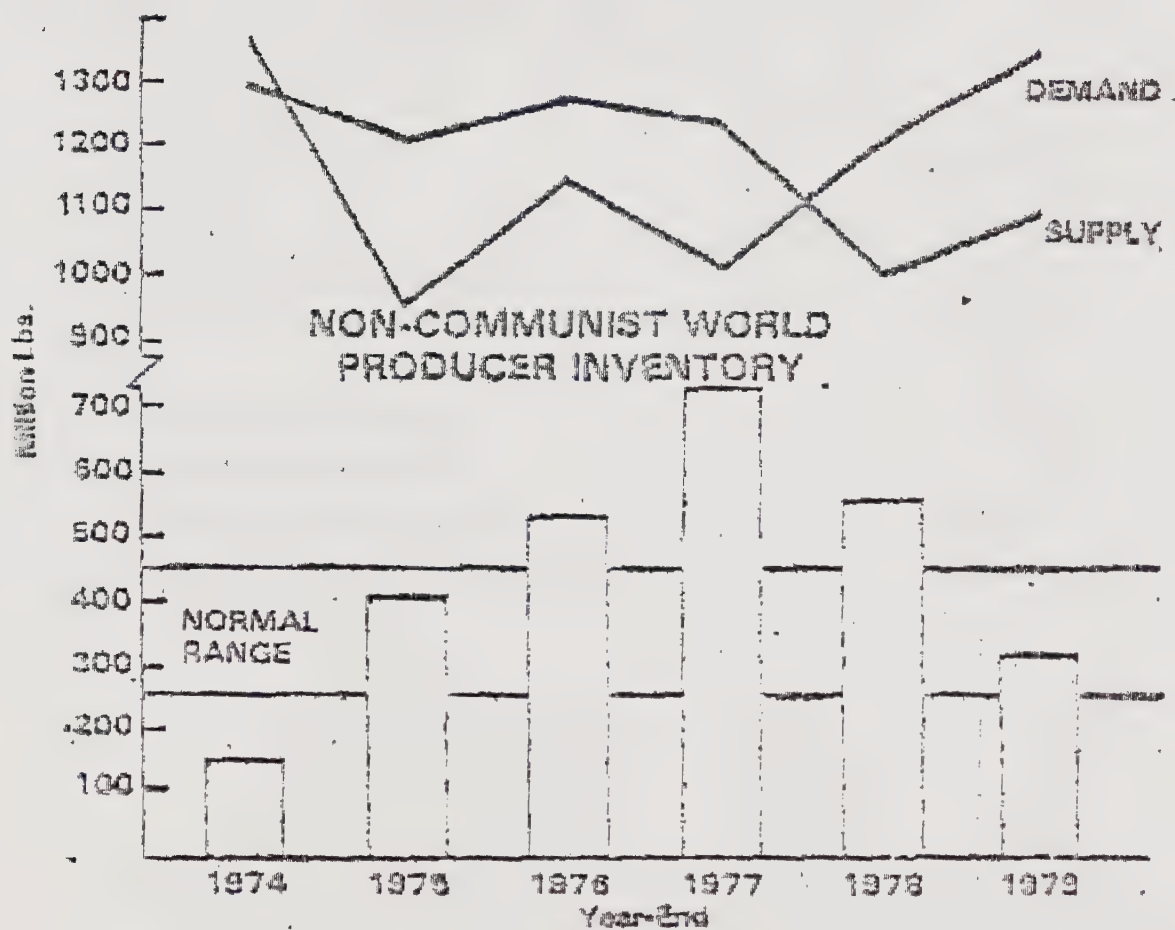
\$ millions



Notes: P - U.K. tax relief associated with prior years.

C - U.K. tax relief associated with 1979.

NON-COMMUNIST WORLD
NICKEL SUPPLY AND DEMAND
1974 - 1979

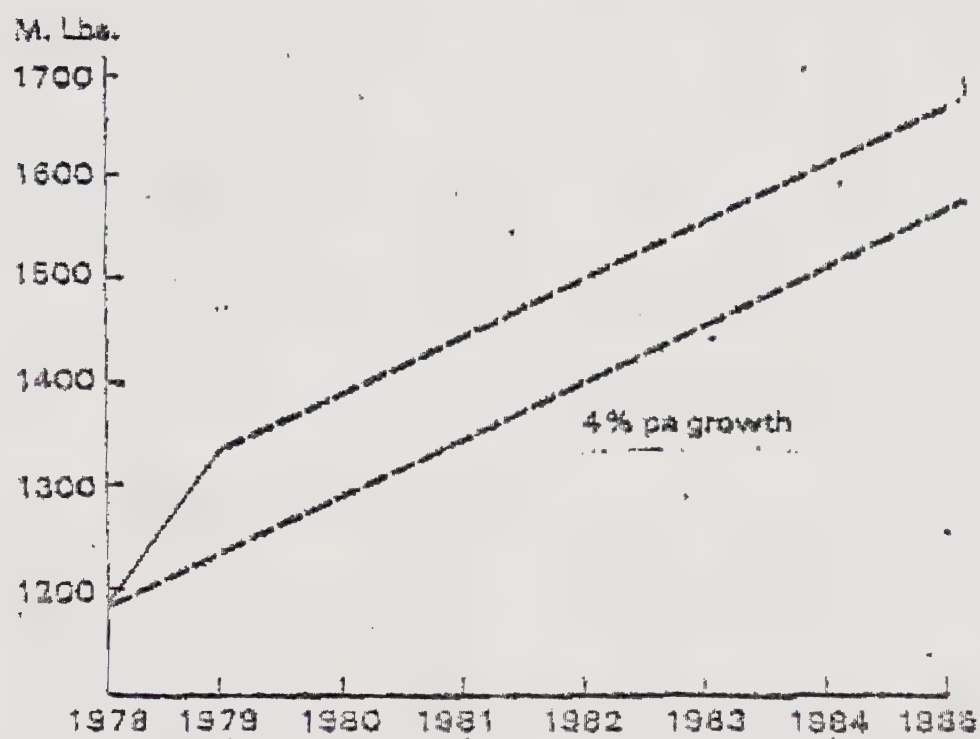


INCO
LIMITEDNICKEL INDUSTRY
CURRENT SUPPLY AND DEMAND
1980, ESTIMATE

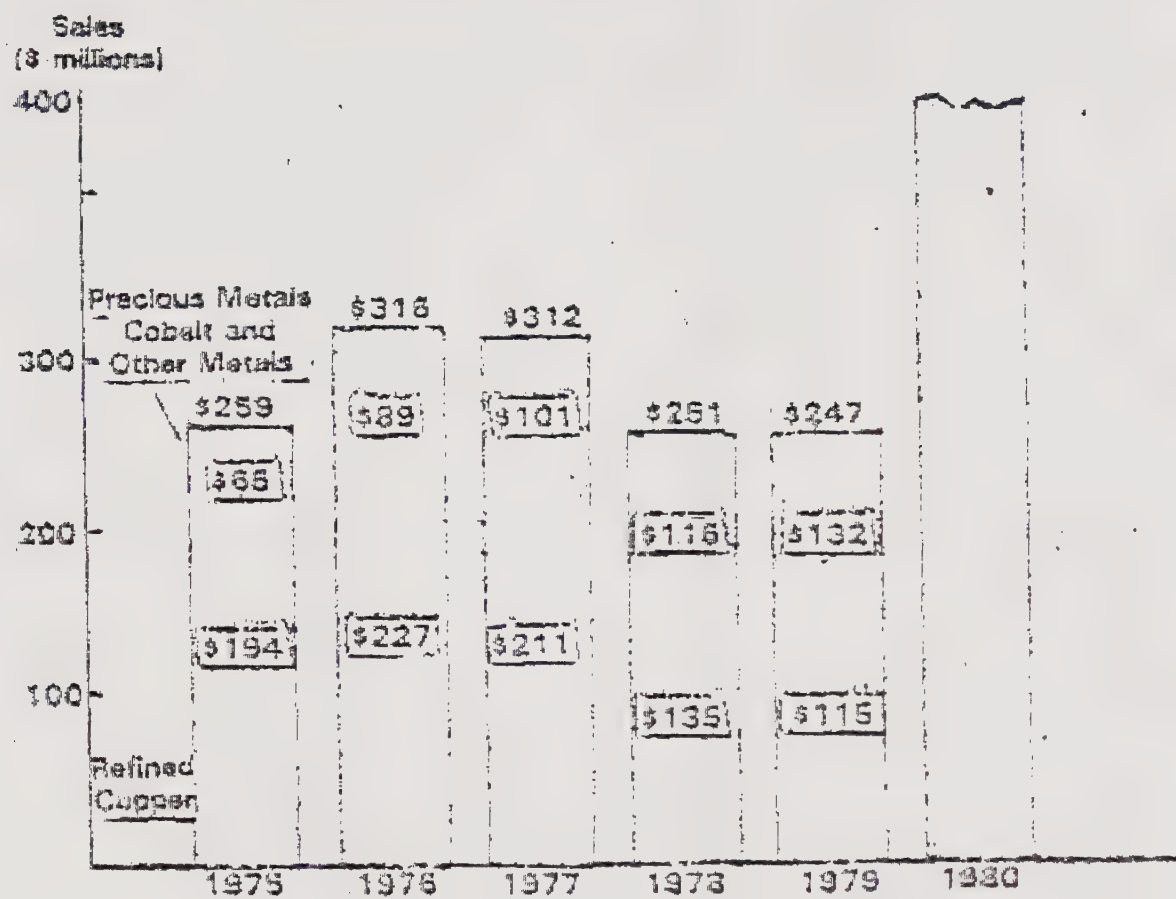
(MIL. LBS.)

Non-communist world production	1,210
USSR & Cuba exports	<u>70</u>
	1,280
Consumption/Demand	<u>1,200</u>
Production less demand	80
Producer inventory, year-end 1979	300-310
Producer inventory, year-end 1980	320-380

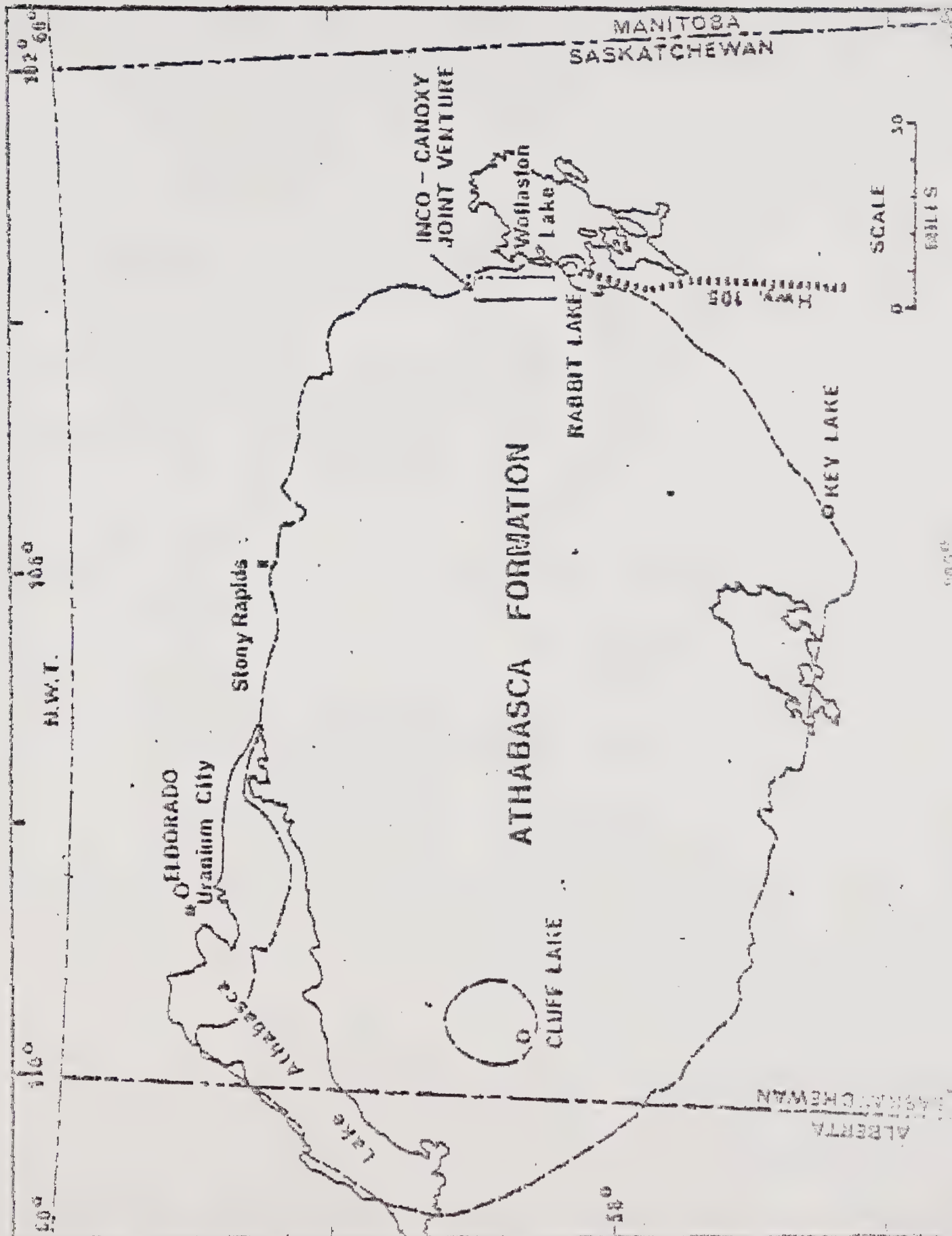
FUTURE ESTIMATED NICKEL CONSUMPTION



SALES OF BY-PRODUCTS



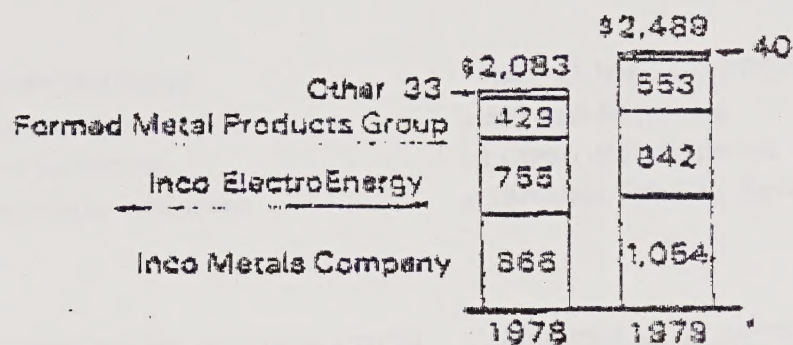
URANIUM DEPOSITS - NORTHERN SASKATCHEWAN



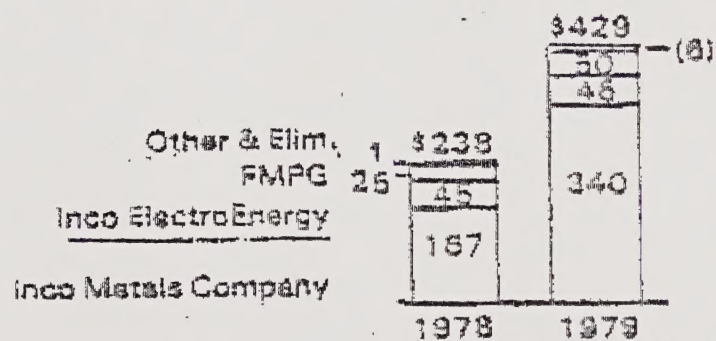
INCO
LIMITED

NET SALES

* millions



OPERATING EARNINGS



INCO
LIMITED

INCO ELECTROENERGY CORPORATION

EXIDE CORPORATION

- industrial batteries
- automotive batteries
- specialty storage batteries

RAY-O-VAC CORPORATION

- dry cell batteries
- button cell batteries
- portable lighting devices

EXIDE ELECTRONICS CORPORATION

- UPS systems
- emergency lighting products

UNIVERSAL ELECTRIC COMPANY

- fractional horsepower motors

